

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAVES COUNTY FISCAL COURT

June 30, 2006

Romaine & Associates, PLLC has completed the audit of the Graves County Fiscal Court for fiscal year ended June 30, 2006.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Graves County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$40,492,355 as of June 30, 2006. The fiscal court had unrestricted net assets of \$1,333,511 and restricted net assets of \$399,530 in its governmental activities as of June 30, 2006, with total net assets of \$ 40,440,918. In its enterprise fund, total net cash and cash equivalents were \$51,437 with total net assets of \$51,437. The fiscal court had total debt principal as of June 30, 2006 of \$4,084,383 with \$1,050,395 due within the next year.

Deposits:

The fiscal court deposits were insured and collateralized by bank securities on June 30, 2006. However, the fiscal court deposits were not insured and collateralized by bank securities on February 28, 2006. The unsecured amount at February 28, 2006 was \$145,032.

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Krista Romaine, CPA, Member
Charlotte Clark, Member

Romaine and Associates PLLC

William Erwin, CPA
Van R. Prince, CPA

CERTIFIED PUBLIC ACCOUNTANTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Graves County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Graves County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Graves County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Graves County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of the basic financial statement. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Members of the Graves County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Graves County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2007 on our consideration of Graves County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

Krista Romaine, CPA

Krista Romaine, CPA
Romaine & Associates, PLLC

January 29, 2007

GRAVES COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

| | |
|----------------|------------------------|
| Tony Smith | County Judge/Executive |
| Romey Holmes | Magistrate |
| Charles Reeves | Magistrate |
| Jeffrey Howard | Magistrate |

Other Elected Officials:

| | |
|-----------------|----------------------------------|
| John Cunningham | County Attorney |
| Randy Haley | Jailer |
| Barry Kennemore | County Clerk |
| Nedra Hall | Circuit Court Clerk |
| John Davis | Sheriff |
| Howell Carr | Property Valuation Administrator |
| Phillip McClain | Coroner |

Appointed Personnel:

| | |
|----------------|------------------|
| Vickie McClain | County Treasurer |
| Codie Courtney | Finance Officer |

GRAVES COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

GRAVES COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------|
| | Governmental Activities | Business-Type Activities | Totals |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 1,733,041 | \$ 51,437 | \$ 1,784,478 |
| Total Current Assets | \$ 1,733,041 | \$ 51,437 | \$ 1,784,478 |
| Noncurrent Assets: | | | |
| Capital Assets - Net of Accumulated Depreciation | | | |
| Land and Land Improvements | \$ 276,270 | \$ | \$ 276,270 |
| Buildings | 6,800,617 | | 6,800,617 |
| Other Equipment | 96,522 | | 96,522 |
| Vehicles and Equipment | 1,176,188 | | 1,176,188 |
| Infrastructure Assets - Net of Depreciation | 34,442,663 | | 34,442,663 |
| Total Noncurrent Assets | \$ 42,792,260 | \$ | \$ 42,792,260 |
| Total Assets | \$ 44,525,301 | \$ 51,437 | \$ 44,576,738 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Bonds Payable | \$ 285,000 | \$ | \$ 285,000 |
| Financing Obligations Payable | 765,395 | | 765,395 |
| Total Current Liabilities | \$ 1,050,395 | \$ | \$ 1,050,395 |
| Noncurrent Liabilities: | | | |
| Bonds Payable | \$ 1,780,000 | \$ | \$ 1,780,000 |
| Financing Obligations Payable | 1,253,988 | | 1,253,988 |
| Total Noncurrent Liabilities | \$ 3,033,988 | \$ | \$ 3,033,988 |
| Total Liabilities | \$ 4,084,383 | \$ | \$ 4,084,383 |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 38,707,877 | \$ | \$ 38,707,877 |
| Restricted For: | | | |
| Debt Service | 399,530 | | 399,530 |
| Unrestricted | 1,333,511 | 51,437 | 1,384,948 |
| Total Net Assets | \$ 40,440,918 | \$ 51,437 | \$ 40,492,355 |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

GRAVES COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

| | | Program Revenues Received | | |
|--|--------------|---------------------------|--|--|
| Functions/Programs Reporting Entity | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 2,681,511 | \$ 1,800 | \$ 95,906 | \$ 265,316 |
| Protection to Persons and Property | 1,825,828 | 917,402 | 225,420 | 8,789 |
| General Health and Sanitation | 47,394 | | | 12,570 |
| Social Services | 14,926 | | | |
| Recreation and Culture | 194,540 | | | |
| Roads | 4,121,538 | | 316,774 | 1,622,527 |
| Airports | 13,914 | | | |
| Interest on Long Term Debt | 199,720 | 233,634 | | |
| Total Governmental Activities | \$ 9,099,371 | \$ 1,152,836 | \$ 638,100 | \$ 1,909,202 |
| Business-type Activities: | | | | |
| Jail Canteen | \$ 133,069 | \$ 134,327 | \$ | \$ |
| Total Business-type Activities | \$ 133,069 | \$ 134,327 | \$ | \$ |
| Total Primary Government | \$ 9,232,440 | \$ 1,287,163 | \$ 638,100 | \$ 1,909,202 |

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu of Tax Payments

Excess Fees

Unrestricted Investment Earnings

Legal Process

Miscellaneous Revenues

Gain on Disposal of Capital Assets

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

| Net (Expenses) Revenues and Changes in Net Assets | | |
|--|-----------------------------|-----------------------|
| Primary Government | | |
| Governmental Activities | Business-Type Activities | Totals |
| \$ (2,318,489) | \$ | \$ (2,318,489) |
| (674,217) | | (674,217) |
| (34,824) | | (34,824) |
| (14,926) | | (14,926) |
| (194,540) | | (194,540) |
| (2,182,237) | | (2,182,237) |
| (13,914) | | (13,914) |
| 33,914 | | 33,914 |
| <u>\$ (5,399,233)</u> | | <u>\$ (5,399,233)</u> |
| <u>\$</u> | <u>\$ 1,258</u> | <u>\$ 1,258</u> |
| <u>\$</u> | <u>\$ 1,258</u> | <u>\$ 1,258</u> |
| <u>\$ (5,399,233)</u> | <u>\$ 1,258</u> | <u>\$ (5,397,975)</u> |
| | | |
| \$ 1,227,755 | | \$ 1,227,755 |
| 8,990 | | 8,990 |
| 197,180 | | 197,180 |
| 1,418,392 | | 1,418,392 |
| 121,821 | | 121,821 |
| 285,535 | | 285,535 |
| 18,404 | 61 | 18,465 |
| 194 | | 194 |
| 1,048,656 | | 1,048,656 |
| 98,435 | | 98,435 |
| <u>\$ 4,425,362</u> | <u>\$ 61</u> | <u>\$ 4,425,423</u> |
| <u>\$ (973,871)</u> | <u>\$ 1,319</u> | <u>\$ (972,552)</u> |
| <u>41,414,789</u> | <u>50,118</u> | <u>41,464,907</u> |
| | | |
| <u>\$ 40,440,918</u> | <u>\$ 51,437</u> | <u>\$ 40,492,355</u> |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

GRAVES COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

| | General Fund | Road Fund | Jail Fund | Industrial Development Fund | Jail Escrow Fund |
|---------------------------|-------------------------|----------------------|----------------------|--|---------------------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 758,937 | \$ 147,008 | \$ 420 | \$ 656 | \$ 395,218 |
| Total Assets | <u>\$ 758,937</u> | <u>\$ 147,008</u> | <u>\$ 420</u> | <u>\$ 656</u> | <u>\$ 395,218</u> |
| FUND BALANCES | | | | | |
| Unreserved: | | | | | |
| General Fund | \$ 758,937 | \$ | \$ | \$ | \$ |
| Special Revenue Funds | | 147,008 | 420 | 656 | 395,218 |
| Debt Service Fund | | | | | |
| Total Fund Balances | <u>\$ 758,937</u> | <u>\$ 147,008</u> | <u>\$ 420</u> | <u>\$ 656</u> | <u>\$ 395,218</u> |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****June 30, 2006****(Continued)**

| Building Commission Fund | Non- Major Funds | Total Governmental Funds |
|---|---------------------------------|---|
| \$ 399,530 | \$ 31,272 | \$ 1,733,041 |
| <u>\$ 399,530</u> | <u>\$ 31,272</u> | <u>\$ 1,733,041</u> |

| | | |
|-------------------|------------------|---------------------|
| \$ | \$ | \$ 758,937 |
| | 31,272 | 574,574 |
| 399,530 | | 399,530 |
| <u>\$ 399,530</u> | <u>\$ 31,272</u> | <u>\$ 1,733,041</u> |

Reconciliation of The Balance Sheet-Governmental Funds to The Statement of Net Assets:

| | |
|---|----------------------|
| Total Fund Balances | \$ 1,733,041 |
| Amounts Reported For Governmental Activities In The Statement | |
| Of Net Assets Are Different Because: | |
| Capital Assets Used in Governmental Activities Are Not Financial Resources | |
| And Therefore Are Not Reported in the Funds. | 142,462,751 |
| Accumulated Depreciation | (99,670,491) |
| Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds. | |
| Due Within One Year - Bonds and Financing Obligation Principal | (1,050,395) |
| Due In More Than One Year - Bonds and Financing Obligation Principal | <u>(3,033,988)</u> |
| Net Assets Of Governmental Activities | <u>\$ 40,440,918</u> |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

GRAVES COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

| | <u>General Fund</u> | <u>Road Fund</u> | <u>Jail Fund</u> | <u>Industrial Development Fund</u> |
|---|-------------------------|-----------------------|-----------------------|--|
| REVENUES | | | | |
| Taxes | \$ 2,852,317 | \$ | \$ | \$ |
| In Lieu Tax Payments | 121,821 | | | |
| Excess Fees | 285,535 | | | |
| Licenses and Permits | 100,476 | | | |
| Intergovernmental | 347,316 | 1,914,306 | 293,299 | |
| Charges for Services | | | 20,410 | |
| Miscellaneous | 102,956 | 1,432 | 7,476 | 901,350 |
| Interest | 1,497 | 769 | 25 | |
| Total Revenues | <u>\$ 3,811,918</u> | <u>\$ 1,916,507</u> | <u>\$ 321,210</u> | <u>\$ 901,350</u> |
| EXPENDITURES | | | | |
| General Government | \$ 797,504 | \$ | \$ | \$ 584,799 |
| Protection to Persons and Property | 172,219 | | 1,215,646 | |
| General Health and Sanitation | 47,394 | | | |
| Social Services | 14,926 | | | |
| Recreation and Culture | 124,620 | | | |
| Roads | | 779,149 | | |
| Airports | 13,914 | | | |
| Debt Service | | 36,120 | | 316,469 |
| Capital Projects | 252,192 | 2,147,005 | | |
| Administration | 984,359 | 82,112 | 144,705 | |
| Total Expenditures | <u>\$ 2,407,128</u> | <u>\$ 3,044,386</u> | <u>\$ 1,360,351</u> | <u>\$ 901,268</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>\$ 1,404,790</u> | <u>\$ (1,127,879)</u> | <u>\$ (1,039,141)</u> | <u>\$ 82</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Capital Assets | \$ | \$ 595,315 | \$ | \$ |
| Financing Obligation Proceeds | | 146,736 | | |
| Transfers From Other Funds | 920,000 | 540,400 | 1,034,000 | |
| Transfers To Other Funds | (1,831,550) | (60,000) | | |
| Total Other Financing Sources (Uses) | <u>\$ (911,550)</u> | <u>\$ 1,222,451</u> | <u>\$ 1,034,000</u> | <u>\$</u> |
| Net Change in Fund Balances | \$ 493,240 | \$ 94,572 | \$ (5,141) | \$ 82 |
| Fund Balances - Beginning (Restated) | 265,697 | 52,436 | 5,561 | 574 |
| Fund Balances - Ending | <u>\$ 758,937</u> | <u>\$ 147,008</u> | <u>\$ 420</u> | <u>\$ 656</u> |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

| <u>Jail Escrow Fund</u> | <u>Building Commission Fund</u> | <u>Non- Major Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------------|---|---------------------------------|---|
| \$ | \$ | \$ | \$ 2,852,317 |
| | | | 121,821 |
| | | | 285,535 |
| | | | 100,476 |
| 782,351 | | 43,982 | 3,381,254 |
| | 233,634 | | 254,044 |
| | | | 1,013,214 |
| 624 | 15,415 | 74 | 18,404 |
| <u>\$ 782,975</u> | <u>\$ 249,049</u> | <u>\$ 44,056</u> | <u>\$ 8,027,065</u> |
| \$ | \$ | \$ | \$ 1,382,303 |
| | | 310,270 | 1,698,135 |
| | | | 47,394 |
| | | | 14,926 |
| | | | 124,620 |
| | | | 779,149 |
| | | | 13,914 |
| | 386,873 | | 739,462 |
| | | | 2,399,197 |
| 3,410 | 1,703 | 7,169 | 1,223,458 |
| <u>\$ 3,410</u> | <u>\$ 388,576</u> | <u>\$ 317,439</u> | <u>\$ 8,422,558</u> |
| <u>\$ 779,565</u> | <u>\$ (139,527)</u> | <u>\$ (273,383)</u> | <u>\$ (395,493)</u> |
| \$ | \$ | \$ | \$ 595,315 |
| | | | 146,736 |
| | 143,281 | 281,150 | 2,918,831 |
| (1,027,281) | | | (2,918,831) |
| <u>\$ (1,027,281)</u> | <u>\$ 143,281</u> | <u>\$ 281,150</u> | <u>\$ 742,051</u> |
| \$ (247,716) | \$ 3,754 | \$ 7,767 | \$ 346,558 |
| 642,934 | 395,776 | 23,505 | 1,386,483 |
| <u>\$ 395,218</u> | <u>\$ 399,530</u> | <u>\$ 31,272</u> | <u>\$ 1,733,041</u> |

The accompanying notes are an integral part of the financial statements.

**GRAVES COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

GRAVES COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances-Governmental Funds to The Statement of Activities:**

| | |
|---|----------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 346,558 |
| Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. | |
| Disposal of Net Assets | (496,880) |
| Capital Outlay | 2,399,197 |
| Depreciation Expense | (3,615,752) |
| The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets. | |
| Financing Obligation Proceeds | (146,736) |
| Financing Obligations Principal Payments | 269,742 |
| Bond Payments | <u>270,000</u> |
| Change in Net Assets of Governmental Activities | <u><u>\$ (973,871)</u></u> |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

GRAVES COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

| | Business-Type Activities - Enterprise Fund |
|---------------------------|---|
| | Jail Canteen Fund |
| Assets | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 51,437 |
| Total Current Assets | <u>\$ 51,437</u> |
| Total Assets | <u>\$ 51,437</u> |
| Net Assets | |
| Unrestricted | \$ 51,437 |
| Total Net Assets | <u><u>\$ 51,437</u></u> |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

GRAVES COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

| | Business-Type Activities - Enterprise Fund |
|---|---|
| | Jail Canteen Fund |
| Operating Revenues | |
| Canteen Receipts | \$ 134,327 |
| Total Operating Revenues | <u>\$ 134,327</u> |
| Operating Expenses | |
| Commissary Supplies | \$ 70,671 |
| Educational and Recreational | 4,282 |
| Miscellaneous | 11,915 |
| Total Operating Expenses | <u>\$ 86,868</u> |
| Operating Income (Loss) | <u>\$ 47,459</u> |
| Nonoperating Revenues (Expenses) | |
| Interest Income | \$ 61 |
| Room and Board | (36,993) |
| Inmate Refunds | <u>(9,208)</u> |
| Total Nonoperating Revenues (Expenses) | <u>\$ (46,140)</u> |
| Change In Net Assets | \$ 1,319 |
| Total Net Assets - Beginning | 50,118 |
| Total Net Assets - Ending | <u><u>\$ 51,437</u></u> |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

GRAVES COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

| | Business-Type Activities - Enterprise Fund |
|---|---|
| | Jail Canteen Fund |
| Cash Flows From Operating Activities | |
| Receipts From Customers | \$ 134,327 |
| Educational and Recreational | (4,282) |
| Commissary Supplies | (70,671) |
| Miscellaneous | (11,915) |
| Net Cash Provided By Operating Activities | <u>\$ 47,459</u> |
| Cash Flows From Noncapital Financing Activities | |
| Room and Board | \$ (36,993) |
| Inmate Refunds on Accounts | (9,208) |
| Net Cash Provided By Noncapital Financing Activities | <u>\$ (46,201)</u> |
| Cash Flows From Investing Activities | |
| Interest Earned | \$ 61 |
| Net Cash Provided By Investing Activities | <u>\$ 61</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 1,319 |
| Cash and Cash Equivalents - July 1, 2005 | <u>50,118</u> |
| Cash and Cash Equivalents - June 30, 2006 | <u><u>\$ 51,437</u></u> |
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities | |
| Operating Income | <u>\$ 47,459</u> |
| Net Cash Provided By Operating Activities | <u><u>\$ 47,459</u></u> |

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Graves County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Building Commission Fund

This fund accounts for the debt service requirements of refunding bonds of the County as a Debt Service Fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for Local Development does not require the County to report or budget these funds. However, the County decided to include the Building Commission Fund as part of the primary government as a blended component unit of the county.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Graves County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Graves County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Graves County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Escrow Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the fiscal court.

Building Commission Fund - The purpose of this fund is to account for debt service payments for the Courthouse renovation and Jail renovation projects for 1996. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

Industrial Development Fund - The purpose of this fund is to account for industrial development activities within the county.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Disaster and Emergency Services Fund, Adult and Juvenile Housing Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Jail Escrow Fund, Local Government Economic Assistance Fund, Disaster and Emergency Services Fund, Adult and Juvenile Housing Fund, and Industrial Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Funds:

The Graves County Building Commission Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

| | Capitalization Threshold | Useful Life (Years) |
|-------------------------------------|-----------------------------|------------------------|
| Land Improvements | \$ 25,000 | 10-60 |
| Buildings and Building Improvements | \$ 50,000 | 10-75 |
| Machinery and Equipment | \$ 5,000 | 3-25 |
| Vehicles | \$ 5,000 | 3-25 |
| Infrastructure | \$ 25,000 | 10-50 |

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund or the Building Commission Fund to be budgeted.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Graves County Fiscal Court: Consumers Water District, South Graves Water District, Hickory Water District, Hardeman Water District, Fancy Farm Water District, and Symsonia Water District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Graves County Fiscal Court: Mayfield-Graves County Parks and Recreation, Mayfield-Graves County Ambulance Service, Mayfield-Graves County Senior Citizens, Graves Growth Alliance, Inc., and Purchase Area Regional Industrial Authority.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations (Continued)

Mayfield-Graves County Parks and Recreation

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Mayfield-Graves County Parks and Recreation. The Mayfield-Graves County Parks and Recreation is a joint venture between Fiscal Court and the City of Mayfield "to provide a centralized recreational facilities" within the county and the city. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Mayfield-Graves County Parks and Recreation. During fiscal year 2006, the Fiscal Court paid the Mayfield-Graves County Parks and Recreation \$50,620.

Mayfield-Graves County Ambulance Service

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Mayfield-Graves County Ambulance Service. The Mayfield-Graves County Ambulance Service is a joint venture between Fiscal Court and the City of Mayfield "to provide a medical services" within the county and city. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Mayfield-Graves County Ambulance Service.

Mayfield-Graves County Senior Citizens

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Mayfield-Graves County Senior Citizens. The Mayfield-Graves County Senior Citizens is a joint venture between Fiscal Court and the City of Mayfield "to provide a centralized recreational facilities for the elderly" within the county and the city. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Mayfield-Graves County Senior Citizens. During fiscal year 2006, the Fiscal Court paid the Mayfield-Graves County Parks and Recreation \$7,500.

Graves Growth Alliance, Inc.

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Graves Growth Alliance, Inc. The Graves Growth Alliance, Inc. is a joint venture between Fiscal Court and the City of Mayfield. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Graves Growth Alliance, Inc.

Purchase Area Regional Industrial Authority

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Purchase Area Regional Industrial Authority. The Purchase Area Regional Industrial Authority is a joint venture between Fiscal Court and the City of Mayfield "for the purpose of acquiring and developing land and marketing sites to stimulate and promote economic development in the county". The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Purchase Area Regional Industrial Authority.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480 (1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. Graves County Fiscal Court does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits of the primary government were covered by FDIC insurance or a properly executed collateral security agreement. However, as of February 28, 2006, the collateral and FDIC insurance together did not equal or exceed the amount on deposit leaving \$145,032 of the bank balance of 2,558,912 exposed to custodial credit risk.

- Uninsured and unsecured -\$145,032

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

• **Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

| | Reporting Entity | | | |
|---|----------------------|----------------|--------------|-------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Primary Government: | | | | |
| <u>Governmental Activities:</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 276,270 | \$ | \$ | \$ 276,270 |
| Total Capital Assets Not Being Depreciated | \$ 276,270 | \$ | \$ | \$ 276,270 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | \$ 12,900,300 | | | \$ 12,900,300 |
| Other Equipment | 306,584 | | | 306,584 |
| Vehicles and Equipment | 1,832,068 | 957,665 | (533,032) | 2,256,701 |
| Infrastructure | 125,281,364 | 1,441,532 | | 126,722,896 |
| Total Capital Assets Being Depreciated | \$ 140,320,316 | \$ 2,399,197 | \$ (533,032) | \$ 142,186,481 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | (5,952,352) | (147,331) | | (6,099,683) |
| Other Equipment | (195,072) | (14,990) | | (210,062) |
| Vehicles and Equipment | (940,287) | (176,378) | 36,152 | (1,080,513) |
| Infrastructure | (89,003,180) | (3,277,053) | | (92,280,233) |
| Total Accumulated Depreciation | \$ (96,090,891) | \$ (3,615,752) | \$ 36,152 | \$ (99,670,491) |
| Total Capital Assets, Being Depreciated, Net | \$ 44,229,425 | \$ (1,216,555) | \$ (496,880) | \$ 42,515,990 |
| Governmental Activities Capital Assets, Net | \$ 44,505,695 | \$ (1,216,555) | \$ (496,880) | \$ 42,792,260 |

Depreciation expense was charged to functions of the primary government as follows:

| | |
|--|---------------------|
| <u>Governmental Activities:</u> | |
| General Government | \$ 75,750 |
| Protection to Persons and Property | 127,693 |
| Recreation and Culture | 69,920 |
| Roads, Including Depreciation of General Infrastructure Assets | 3,342,389 |
| Total Depreciation Expense - Governmental Activities | <u>\$ 3,615,752</u> |

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt

A. Courthouse Facility First Mortgage Revenue Bonds, Series 1996A

On December 1, 1996 the Graves County Building Commission issued first mortgage refunding revenue bonds, series 1996A in the amount of \$2,555,000 for the purpose of discharging the outstanding bond series 1990 and 1991 Court Facilities Project. The Kentucky Administrative Office of the Courts (AOC) agreed to pay \$233,000 annually for the principal and interest of these bonds directly to the paying agent. If the payment from AOC is not sufficient to meet the principal and interest requirements of the bonds, the county is liable of the remainder.

Bond principal and interest requirements as of June 30, 2006 are:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|---------------------|-------------------|
| 2007 | \$ 160,000 | \$ 65,340 |
| 2008 | 170,000 | 57,420 |
| 2009 | 175,000 | 49,005 |
| 2010 | 185,000 | 40,343 |
| 2011 | 195,000 | 31,185 |
| 2012-2015 | 435,000 | 21,533 |
| Totals | <u>\$ 1,320,000</u> | <u>\$ 264,826</u> |

B. Detention Facility First Mortgage Revenue Bonds, Series 1996B

On December 1, 1996, the Graves County Building Commission issued first mortgage refunding revenue bonds, series 1996B in the amount of \$1,700,000 for the purpose of discharging the outstanding bond series 1991 Detention Facilities Project. The Graves County Building Commission and Graves County have entered into an annually renewable lease, dated December 1, 1996, wherein Graves County will lease from the Graves County Building Commission the project and project site, at an agreed rental, the proceeds of which will be used to pay principal and interest on the bonds.

Bond principal and interest requirements as of June 30, 2006 are:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|-------------------|-------------------|
| 2007 | \$ 125,000 | \$ 37,995 |
| 2008 | 130,000 | 31,620 |
| 2009 | 135,000 | 24,990 |
| 2010 | 140,000 | 18,105 |
| 2011 | 145,000 | 10,965 |
| 2012 | 70,000 | 3,570 |
| Totals | <u>\$ 745,000</u> | <u>\$ 127,245</u> |

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

C. Road Trucks

On March 1, 2004, the Graves County Fiscal Court entered into a \$480,000 financing obligation agreement at a rate of 3.25 percent to purchase six (6) trucks for the road department.

Future principal and interest requirements as of June 30, 2006 are:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Interest & Fees</u> |
|--------------------------------------|-------------------|----------------------------|
| 2007 | \$ 480,000 | \$ 16,700 |
| Totals | <u>\$ 480,000</u> | <u>\$ 16,700</u> |

D. Wastewater Treatment Facility

On February 1, 1990, the Graves County Fiscal Court entered into an agreement with the Kentucky Infrastructure Authority (KIA) in order to construct a wastewater treatment facility for Pilgrims Pride (formerly known as Seaboard Farms, Inc.). The Graves County Fiscal Court also entered into an agreement with Pilgrims Pride for rental payments equal to the loan payments. However, if the rental payments from Pilgrims Pride are not sufficient to pay loan payments, the Graves County Fiscal Court is liable.

Future principal and interest requirements as of June 30, 2006 are:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|---------------------|-------------------|
| 2007 | \$ 220,487 | \$ 41,752 |
| 2008 | 228,272 | 33,523 |
| 2009 | 236,331 | 25,003 |
| 2010 | 244,675 | 16,182 |
| 2011 | <u>253,315</u> | <u>7,049</u> |
| Totals | <u>\$ 1,183,080</u> | <u>\$ 123,509</u> |

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

E. Wastewater Treatment Facility

On December 1, 1995, the Graves County Fiscal Court entered into an agreement with the Kentucky Infrastructure Authority (KIA) in order to construct a wastewater treatment facility for Recycled Paper Shavings, Inc. The Graves County Fiscal Court also entered into an agreement with Recycled Paper Shavings, Inc. for rental payments equal to the loan payments. However, if the rental payments from Recycled Paper Shavings, Inc. are not sufficient to pay loan payments, the Graves County Fiscal Court is liable.

Future principal and interest requirements as of June 30, 2006 are:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|-------------------|------------------|
| 2007 | \$ 46,460 | \$ 7,218 |
| 2008 | 47,978 | 5,607 |
| 2009 | 49,545 | 3,943 |
| 2010 | 51,163 | 2,225 |
| 2011 | 26,204 | 452 |
| Totals | <u>\$ 221,350</u> | <u>\$ 19,445</u> |

F. Excavator

On October 10, 2005, the Graves County Fiscal Court entered into a \$146,725 lease agreement at a rate of 5.25 percent to purchase a road excavator for the road department. The principal balance as of June 30, 2006 is \$134,953.

Future principal and interest requirements as of June 30, 2006 are:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|-------------------|------------------|
| 2007 | \$ 18,448 | \$ 6,645 |
| 2008 | 19,440 | 5,653 |
| 2009 | 20,485 | 4,608 |
| 2010 | 21,587 | 3,506 |
| 2011 | 22,748 | 2,345 |
| 2012 | 32,245 | 1,213 |
| Totals | <u>\$ 134,953</u> | <u>\$ 23,970</u> |

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

G. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---------------------------------|----------------------|-------------------|-------------------|---------------------|------------------------|
| Primary Government: | | | | | |
| <u>Governmental Activities:</u> | | | | | |
| Revenue Refunding Bonds | \$ 2,335,000 | \$ | \$ 270,000 | \$ 2,065,000 | \$ 285,000 |
| Financing Obligations | 2,142,389 | 146,736 | 269,742 | 2,019,383 | 765,395 |
| Governmental Activities | | | | | |
| Long-term Liabilities | <u>\$ 4,477,389</u> | <u>\$ 146,736</u> | <u>\$ 539,742</u> | <u>\$ 4,084,383</u> | <u>\$ 1,050,395</u> |

Note 5. Interest On Long-term Debt and Financing Obligations

Interest on Long-term Debt on the Statement of Activities includes \$82,847 in interest on financing obligations and \$116,873 in interest on bonds and notes.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

The Graves County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Deferred Compensation (Continued)

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2006, Graves County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The General Fund balance of \$758,937 has been adjusted to include prior year voided checks in the amount of \$12,685 for a prior period adjustment. Also, the General Fund had a certificate of deposit that was previously not included in the fund balance in the amount of \$1,254. The Road Fund Balance of \$147,008 has been adjusted to include prior year voided checks in the amount of \$200 for a prior period adjustment. The Jail Fund balance of \$420 has been adjusted to include prior period voided checks in the amount of \$445 for a prior period adjustment. The Adult and Juvenile Housing Fund balance has been adjusted to include prior year voided checks in the amount of \$13,634 for a prior period adjustment.

Note 10. Conduit Bond Issue

During the fiscal year ended June 30, 2006, Graves County along with TLC Lighting, Inc. issued a conduit bond for industrial development. Graves County is not liable for the repayment of this bond issue.

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

| | GENERAL FUND | | | |
|---|-----------------------|-----------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 2,620,000 | \$ 2,841,000 | \$ 2,852,317 | \$ 11,317 |
| In Lieu Tax Payments | 108,000 | 122,000 | 121,821 | (179) |
| Excess Fees | 226,611 | 253,611 | 285,535 | 31,924 |
| Licenses and Permits | 89,500 | 100,400 | 100,476 | 76 |
| Intergovernmental Revenue | 97,400 | 346,770 | 347,316 | 546 |
| Miscellaneous | 71,800 | 106,800 | 102,956 | (3,844) |
| Interest | 500 | 500 | 1,497 | 997 |
| Total Revenues | <u>\$ 3,213,811</u> | <u>\$ 3,771,081</u> | <u>\$ 3,811,918</u> | <u>\$ 40,837</u> |
| EXPENDITURES | | | | |
| General Government | \$ 699,243 | \$ 980,273 | \$ 797,504 | \$ 182,769 |
| Protection to Persons and Property | 95,831 | 234,381 | 172,219 | 62,162 |
| General Health and Sanitation | 25,000 | 34,826 | 47,394 | (12,568) |
| Social Services | 11,200 | 16,700 | 14,926 | 1,774 |
| Recreation and Culture | 109,000 | 124,620 | 124,620 | |
| Airports | 15,000 | 15,000 | 13,914 | 1,086 |
| Capital Projects | | | 252,192 | (252,192) |
| Administration | 848,538 | 955,282 | 984,359 | (29,077) |
| Total Expenditures | <u>\$ 1,803,812</u> | <u>\$ 2,361,082</u> | <u>\$ 2,407,128</u> | <u>\$ (46,046)</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>\$ 1,409,999</u> | <u>\$ 1,409,999</u> | <u>\$ 1,404,790</u> | <u>\$ (5,209)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Financing Obligation Proceeds | | | | |
| Transfers From Other Funds | \$ 441,140 | \$ 441,140 | \$ 920,000 | \$ 478,860 |
| Transfers To Other Funds | (2,374,139) | (2,374,139) | (1,831,550) | 542,589 |
| Total Other Financing Sources (Uses) | <u>\$ (1,932,999)</u> | <u>\$ (1,932,999)</u> | <u>\$ (911,550)</u> | <u>\$ 1,021,449</u> |
| Net Changes in Fund Balance | \$ (523,000) | \$ (523,000) | \$ 493,240 | \$ 1,016,240 |
| Fund Balance - Beginning (Restated) | <u>523,000</u> | <u>523,000</u> | <u>265,697</u> | <u>(257,303)</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 758,937</u> | <u>\$ 758,937</u> |

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

| | ROAD FUND | | | |
|---|-------------------------|-----------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 1,514,535 | \$ 1,910,535 | \$ 1,914,306 | \$ 3,771 |
| Miscellaneous | 200 | 597,200 | 1,432 | (595,768) |
| Interest | | 1,000 | 769 | (231) |
| Total Revenues | <u>\$ 1,514,735</u> | <u>\$ 2,508,735</u> | <u>\$ 1,916,507</u> | <u>\$ (592,228)</u> |
| EXPENDITURES | | | | |
| Roads | \$ 2,431,910 | \$ 2,591,417 | \$ 779,149 | \$ 1,812,268 |
| Debt Service | 44,000 | 604,000 | 36,120 | 567,880 |
| Capital Projects | | | 2,147,005 | (2,147,005) |
| Administration | 87,173 | 414,666 | 82,112 | 332,554 |
| Total Expenditures | <u>\$ 2,563,083</u> | <u>\$ 3,610,083</u> | <u>\$ 3,044,386</u> | <u>\$ 565,697</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>\$ (1,048,348)</u> | <u>\$ (1,101,348)</u> | <u>\$ (1,127,879)</u> | <u>\$ (26,531)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from Sale of Capital Assets | \$ | \$ | \$ 595,315 | \$ 595,315 |
| Borrowed Money | | | 146,736 | 146,736 |
| Transfers To Other Funds | | | (60,000) | (60,000) |
| Transfers From Other Funds | 1,048,348 | 1,048,348 | 540,400 | (507,948) |
| Total Other Financing Sources (Uses) | <u>\$ 1,048,348</u> | <u>\$ 1,048,348</u> | <u>\$ 1,222,451</u> | <u>\$ 174,103</u> |
| Net Changes in Fund Balance | \$ | \$ (53,000) | \$ 94,572 | \$ 147,572 |
| Fund Balance - Beginning (Restated) | | 53,000 | 52,436 | (564) |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 147,008</u> | <u>\$ 147,008</u> |

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

| JAIL FUND | | | | |
|---|-----------------------|-----------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 216,725 | \$ 295,725 | \$ 293,299 | \$ (2,426) |
| Charges for Services | 15,000 | 19,700 | 20,410 | 710 |
| Miscellaneous | 20,000 | 20,000 | 7,476 | (12,524) |
| Interest | | | 25 | 25 |
| Total Revenues | <u>\$ 251,725</u> | <u>\$ 335,425</u> | <u>\$ 321,210</u> | <u>\$ (14,215)</u> |
| EXPENDITURES | | | | |
| Protection to Persons and Property | \$ 1,117,657 | \$ 1,267,182 | \$ 1,215,646 | \$ 51,536 |
| Administration | 144,927 | 85,102 | 144,705 | (59,603) |
| Total Expenditures | <u>\$ 1,262,584</u> | <u>\$ 1,352,284</u> | <u>\$ 1,360,351</u> | <u>\$ (8,067)</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>\$ (1,010,859)</u> | <u>\$ (1,016,859)</u> | <u>\$ (1,039,141)</u> | <u>\$ (22,282)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers From Other Funds | \$ 1,010,859 | \$ 1,010,859 | \$ 1,034,000 | \$ 23,141 |
| Total Other Financing Sources (Uses) | <u>\$ 1,010,859</u> | <u>\$ 1,010,859</u> | <u>\$ 1,034,000</u> | <u>\$ 23,141</u> |
| Net Changes in Fund Balance | \$ | \$ (6,000) | \$ (5,141) | \$ 859 |
| Fund Balance - Beginning (Restated) | | 6,000 | 5,561 | (439) |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 420</u> | <u>\$ 420</u> |

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

| JAIL ESCROW FUND | | | | |
|---|---------------------|---------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 600,000 | \$ 600,000 | \$ 782,351 | \$ 182,351 |
| Interest | | | 624 | 624 |
| Total Revenues | <u>\$ 600,000</u> | <u>\$ 600,000</u> | <u>\$ 782,975</u> | <u>\$ 182,975</u> |
| EXPENDITURES | | | | |
| Debt Service | \$ 158,860 | \$ 158,860 | \$ | \$ 158,860 |
| Administration | | | 3,410 | (3,410) |
| Total Expenditures | <u>\$ 158,860</u> | <u>\$ 158,860</u> | <u>\$ 3,410</u> | <u>\$ 155,450</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>\$ 441,140</u> | <u>\$ 441,140</u> | <u>\$ 779,565</u> | <u>\$ 338,425</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers To Other Funds | (441,140) | (441,140) | (1,027,281) | (586,141) |
| Total Other Financing Sources (Uses) | <u>\$ (441,140)</u> | <u>\$ (441,140)</u> | <u>\$ (1,027,281)</u> | <u>\$ (586,141)</u> |
| Net Changes in Fund Balances | \$ | \$ | \$ (247,716) | \$ (247,716) |
| Fund Balances - Beginning | | | 642,934 | 642,934 |
| Fund Balances - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 395,218</u> | <u>\$ 395,218</u> |

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

| INDUSTRIAL DEVELOPMENT FUND | | | |
|---|------------------|------------|---|
| | Budgeted Amounts | | Variance with Final Budget Positive (Negative) |
| | Original | Final | |
| REVENUES | | | |
| Miscellaneous | \$ 316,439 | \$ 901,504 | \$ 901,350 |
| Total Revenues | \$ 316,439 | \$ 901,504 | \$ 901,350 |
| EXPENDITURES | | | |
| General Government | \$ | \$ 585,000 | \$ 584,799 |
| Debt Service | | 316,504 | 316,469 |
| Capital Projects | 316,439 | | |
| Administration | | 600 | 600 |
| Total Expenditures | \$ 316,439 | \$ 902,104 | \$ 901,268 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | \$ | \$ (600) | \$ 82 |
| Net Changes in Fund Balances | \$ | \$ (600) | \$ 82 |
| Fund Balances - Beginning | | 600 | 574 |
| Fund Balances - Ending | \$ 0 | \$ 0 | \$ 656 |

GRAVES COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**GRAVES COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

GRAVES COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

| | LGEA Fund | DES Fund | Adult & Juvenile Housing Fund | Total Non-Major Governmental Funds |
|---------------------------|----------------------|---------------------|--|---|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 25,516 | \$ 5,057 | \$ 699 | \$ 31,272 |
| Total Assets | <u>\$ 25,516</u> | <u>\$ 5,057</u> | <u>\$ 699</u> | <u>\$ 31,272</u> |
| FUND BALANCES | | | | |
| Unreserved: | | | | |
| Special Revenue Funds | \$ 25,516 | \$ 5,057 | \$ 699 | \$ 31,272 |
| Total Fund Balances | <u>\$ 25,516</u> | <u>\$ 5,057</u> | <u>\$ 699</u> | <u>\$ 31,272</u> |

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

GRAVES COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

| | LGEA Fund | DES Fund | Adult & Juvenile Housing Fund | Total Non-Major Governmental Funds |
|---|-------------------------|------------------------|--|---|
| REVENUES | | | | |
| Intergovernmental | \$ 24,996 | \$ 18,986 | \$ | \$ 43,982 |
| Interest | 27 | 6 | 41 | 74 |
| Total Revenues | <u>\$ 25,023</u> | <u>\$ 18,992</u> | <u>\$ 41</u> | <u>\$ 44,056</u> |
| EXPENDITURES | | | | |
| Protection to Persons and Property | \$ | \$ 35,623 | \$ 274,647 | \$ 310,270 |
| Administration | | 7,169 | | 7,169 |
| Total Expenditures | <u>\$</u> | <u>\$ 42,792</u> | <u>\$ 274,647</u> | <u>\$ 317,439</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>\$ 25,023</u> | <u>\$ (23,800)</u> | <u>\$ (274,606)</u> | <u>\$ (273,383)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers From Other Funds | \$ | \$ 19,500 | \$ 261,650 | \$ 281,150 |
| Total Other Financing Sources (Uses) | <u>\$</u> | <u>\$ 19,500</u> | <u>\$ 261,650</u> | <u>\$ 281,150</u> |
| Net Change in Fund Balances | \$ 25,023 | \$ (4,300) | \$ (12,956) | \$ 7,767 |
| Fund Balances - Beginning (Restated) | 493 | 9,357 | 13,655 | 23,505 |
| Fund Balances - Ending | <u><u>\$ 25,516</u></u> | <u><u>\$ 5,057</u></u> | <u><u>\$ 699</u></u> | <u><u>\$ 31,272</u></u> |

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Krista Romaine, CPA, Member
Charlotte Clark, Member



William Erwin, CPA
Van R. Prince, CPA

CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Tony Smith, Graves County Judge/Executive
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Graves County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 29, 2007. Graves County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graves County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be considered to be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we considered to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Graves County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of material noncompliance or other matter that is required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Krista Romaine, CPA

Krista Romaine, CPA
Romaine & Associates, PLLC

January 29, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

GRAVES COUNTY FISCAL COURT

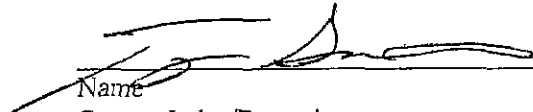
**For The Fiscal Year Ended
June 30, 2006**

Appendix A

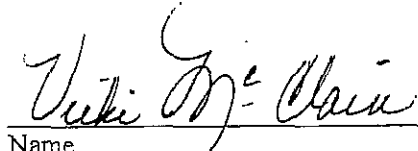
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
GRAVES COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2006

The Graves County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer